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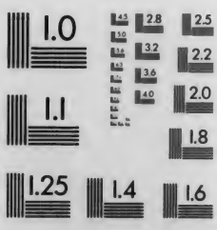

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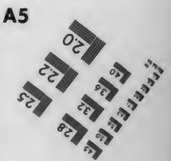

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MILK PRODUCTS

A Survey of Conditions and Regulation of the Industry, 1914-1918

Prepared in the Special Price Research Section

By

James A. McDevitt
Assisted by
J. Donald Edwards

Under the Direction Of

Stella Stewart, Chief
Retail Price Division

July, 1941

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MILK PRODUCTS

A Survey of Conditions and Regulation of the Industry, 1914-1918

During the war, 1914 - 1918, European nations were in great need of American milk products. Dairy herds of the belligerent and neutral nations were decimated because it was easier to import small sized products than bulky feeds. Since shipping space was at a premium, these countries greatly increased their imports of milk in processed form, like cheese, and canned or powdered milk. The importance of these products to the Allies was the prime reason for government regulation of milk and its products in the United States during 1917 and 1918.

Government control was first imposed to direct the flow of exports into the most useful wartime channels. Then the Food Administration was given control over domestic production and distribution, primarily to prevent profiteering but also to encourage increased production both of milk and milk products. In April, 1918 in order to prevent trade with sources indirectly controlled by the enemy, the War Trade Board was given control over imports of dairy products. Since imports of fresh, canned, and powdered milk were primarily from Canada, an Allied source, control of dairy product imports emphasized cheese which was obtained from the European neutrals bordering on Germany.

With regard to fresh milk the prime concern of the Food Administration was to adjust prices so as to induce the farmer to maintain or increase production and at the same time to protect the consumer from unwarranted price rises. To this and regional Federal Milk Commissions were established

to set the price of raw milk each month. The Commissions had varying degrees of success. The New York Commission failed completely after June, 1918, due to dissatisfaction of the milk distributors.

For cheese and canned or powdered milk, domestic prices were not fixed, but various other types of regulations were adopted. Both of these industries were brought under license control on November 1, 1918 and thereafter the Food Administration prohibited "unfair" or "discriminatory" profits.

In addition, in the case of cheese, the Food Administration conducted an export program during the first half of 1918 which was designed to remove storage surpluses of the 1917 cheese crop from the market. This program was so successful that it also removed much of the early 1918 crop. As a result of these exports, together with the continued domestic demand and smaller production due to the competition of other processors for raw milk, prices of cheese rose above the export level of 24 cents set by the Food Administration. However, no action was taken to lower the price.

For canned and powdered milks, processors were required to give Government orders priority. However, it was provided that Government orders should be distributed among the various processors in proportion to their share of the total milk pack. Machinery was provided for the adjustment of complaints if an unduly large portion of any processor's pack was demanded by the Government.

There were other regulations of less significance for canned and powdered milk. For example, the wholesale units of trade were specified by the Food Administration to insure full use of railroad car space. Another regulation forebade processor's to pay more for raw milk than other buyers in the same area.

Given these regulations, and control of the purchases of the Army, Navy, the Allies, the Red Cross and the Belgian Relief Commission, the Food Administration was able to encourage a high level of production for processed milk industries.

Because of the importance of processed milk to the Allies, this report emphasizes these products. Although during the period of the war, it was estimated that 43 percent of all milk produced in the United States was used as fresh milk, 41 percent was used in the production of butter, 5 percent went into cheese, 4.3 percent was fed to veal calves and pigs, 3.7 percent was made into ice cream, and 2.9 percent was consumed in the manufacture of condensed, evaporated, and powdered milk. These various purposes competed with each other for the supply of the raw material and were, of course, influenced in price by its cost.

FRESH MILK

The wholesale price of fresh milk at New York exceeded the usual seasonal high in October, 1916 accompanied by a producers' strike lasting two weeks. Following the strike, the price continued to rise rapidly, allowing for a small seasonal decline in 1917, until January 1918 when the price stood 129 percent above a 1913-14 average. The 1917 rise in price at New York was due largely to the increased cost of feed[1], labor, and shipping, a condition which was generally prevalent at that time. In the

1/ However, in a letter from the Food Administrator to Mr. I. Elkin Mathews, Secretary of the New York Milk Conference Board, on Sept. 21, 1917, he said:

"The probable large corn crops, the arrangement with the miller by which mill feeds will be cheaper, and the export embargo on many feeds, including cottonseed meal, will, I am convinced, reduce the cost of feed and consequently milk production later in the fall."

spring of 1918, the price took a sharp drop of 103 percent to a point 36 percent above the pre-war level by June but again rose just as rapidly to close the year 162 percent above that level.

Milk production in the United States increased approximately 6% between 1914 and 1919. Men qualified in the industry state that production would have been further increased if the price of milk had been fixed at higher levels comparable to the prices of hogs and various cereal grains. The table on the following page reveals that the bulk of the actual increase in milk production occurred in the West dairy, East dairy, wheat and corn areas. These areas were best equipped to produce and process milk.

Regulation

The Food Administration was confronted with the necessity of determining a fair price for milk and then enforcing it; for such action the Administration had no power. It attempted a solution of the problem by appointing a committee to investigate the costs of milk production and distribution. It further suggested that milk contracts "affecting the prices producers receive ... be on a monthly basis instead of a period of six months, as customary." In this way prices could be changed from month to month as conditions warranted, and many of the evil results of the long-time contract could be eliminated. However, conditions were not improved to any appreciable degree since there were continued requests for relief.

Finally, in November, 1917, the Food Administration announced its plans to appoint regional Federal Milk Commissions on which producers, distributors, consumers, milk experts and the public at large would be represented.

Milk Production, 1914, 1917 and 1919*

By Typical Productive Areas

(Millions of Pounds)

Year	United States Total	Corn Area	East Dairy Area	West Dairy Area	East Cotton Area	Delta Cotton Area
1914	69,560	12,300	12,960	14,420	2,560	2,320
1917	73,370	12,950	13,660	15,960	2,510	2,190
1919	75,800	13,050	13,910	16,480	2,400	2,080

Year	West Cotton Area	Cereal Grain Area	Mid-East Area	Range Area	North West Area	California Area
1914	3,670	6,410	5,460	1,340	2,230	2,480
1917	3,490	6,930	5,660	1,470	2,600	2,620
1919	3,170	7,120	5,840	1,410	2,540	2,560

* Source: Trends in Size and Production of the Aggregate Farm Enterprise, 1909-1936, - United States Department of Agriculture.

Commissions were appointed for the districts surrounding New York, Boston, Chicago, San Francisco, and the important consuming centers of Ohio. They were empowered "to determine after hearing, the reasonable prices of milk to be paid by the purchasers to producers, and by consumer to distributors, such prices to be based upon the cost of production and distribution, with a reasonable profit added."

Producers and distributors agreed to abide by the decisions of the Commission in their respective territories so long as they remained parties to the agreement but they were given the right to withdraw from the arrangement upon 30 days' notice. It was further agreed that no increases in the price of milk were to be allowed while the various commissions were making their inquiries.

The commissions had varying degrees of success. In New York where the greatest difficulty was experienced, prices were first fixed for January, 1918, and the Commission continued price recommendations from month to month on the basis of data submitted. In May, however, nearly all milk distributors who were parties to the price agreement specified their intention of withdrawing during the following month, and on July 1, the agreement terminated. Thereafter until the close of the war the Food Administration was called in as mediator in arriving at a fair price. It was fairly successful in using a formula which averaged the cost of feed and labor required to produce 100 pounds of milk. Conditions in other municipal centers were similar to those in New York, and the price problem was generally solved through the application of cost data.

Dairy products were included in the list of restricted imports of April 22, 1918. Licenses were granted only for shipments coming overland or by lake from Canada, or coming overland from Mexico.

Milk was included in the presidential license proclamations of October 8, 1917, and January 10, 1918.

CHEESE

During the period 1914-1918 nearly the entire domestic output of cheese was produced in six states, namely, Wisconsin, Minnesota, Iowa, California, New York and Ohio.

The total production of cheese made in American factories increased from below 314,716,739 pounds in 1914 to 356,947,000 pounds in 1918. Factory made cheese then accounted for about 92 percent of total production. In the same period, imports of cheese and substitutes dropped from 55,477,000 pounds to 7,562,000 pounds, with South America, especially Argentina, replacing Europe as the source of import. Exports, on the other hand, rose from 3,797,000 pounds in 1914 to 66,050,013 pounds in 1917. Whereas before the war our chief export trade in cheese was with other countries of North America, beginning in 1915 and throughout the war period, Europe, primarily the United Kingdom, took by far the largest quantities of cheese exported.

CHEESE

Amounts of Exports by Areas; 1914, 1917, and 1918[1/]

Exports to—	1914	1917	1918
	pounds	pounds	pounds
Europe	570,526	55,573,485	38,021,933
North America	1,671,309	9,835,566	4,921,483
South America	31,363	200,450	245,555
Asia	133,229	333,046	933,692
Oceania	21,015	61,319	85,360
Africa	135	46,147	95,153

1/ Greatest increases in cheese exports were in shipment to the Allies and their possessions. Source: Foreign Commerce and Navigation Reports.

The price of cheese on the New York market advanced a little with the outbreak of war in August 1914, but soon declined due to the heavy offerings of cheese owned by southern dealers who could not sell their cotton because of a cotton embargo. It was the practice of southern cotton dealers to lay in stocks of cheese for sale to laborers during the cotton picking season. In the fall of 1914, faced with the loss of their cotton export market, the dealers were anxious to convert their large holdings of cheese into easily available funds.

The market was ragged during the first half of 1915 but in August, heavy exporting to the United Kingdom and Canada began and by March 1916, the price had risen 12 percent above a 1913-14 average. The new 1916 cheese crop again broke the price to a figure low enough to invite exporting. This, together with increasing consumer purchasing power at home caused a rise to a point 52 percent above the pre-war average by November, 1916. The market was very irregular during 1917 but ended the year about where it began. A heavy surplus of cheese held in storage was found to exist in January 1918, and the Food Administration arranged for the export of 12,000,000 pounds at a set price of 24 cents, seaboard. This resumption of exporting, which had been interrupted by the interference of the speculative element, continued from March until June 1918. It took not only the surplus of the 1 917 crop, but a large portion of the early 1918 crop; prices began to draw away from an export level. Speculators had now become scarce due largely to laws restricting trading and profits, but the market had risen by December 1918 to a level 134 percent above the pre-war average, reacting to continued home demand and a rather small production as a result of the competition of other milk products.

CHEESE

Wholesale Prices of Whole Milk, Cheddar Cheese on Three Markets, 1913-1918 1/

	Chicago Price Per Pound	New York Price Per Pound	San Francisco Price Per Pound
1913	$.1418	$.1546	$.1594
1914	.1438	.1523	.1482
1915	.1423	.1548	.1515
1916			
Quarters			
First	.1707	.1730	.1718
Second	.1541	.1596	.1403
Third	.1592	.1704	.1435
Fourth	.2175	.2283	.1676
1917			
Quarters			
First	.2248	.2463	.1942
Second	.2311	.2467	.2131
Third	.2218	.2346	.2169
Fourth	.2302	.2354	.2277
1918			
Quarters			
First	.2429	.2508	.2554
Second	.2152	.2358	.2419
Third	.2529	.2654	.2873
Fourth	.3402	.3383	.3300

1/ Compiled from figures given in War Industries Board Price Bulletin No. 21. Prices of Poultry and Dairy Products, by William A. Barber, 1919.

Regulations

Cheese was included in President Wilson's proclamation of August 27, 1917, placing under the control of the Exports Administrative Board practically all articles of commerce and prohibiting their export except under license.

On September 28, 1917, cheese became an item on the conservation list of the Exports Administrative Board.

By Presidential Proclamation of October 8, 1917, manufacturers and distributors of cheese were required to be licensed; general regulations governing licensees were issued by the United States Food Administration and became effective on November 1, 1917.

On April 22, 1918, the list of restricted imports No. 2, item 113, was extended to include dairy products.

Special regulations governing manufacturers and distributors of all kinds of cheese were issued by the Food Administration on June 12, 1918. They were designed to restrict margins of profit. On July 12 and August 2, 1918, they were revised. An additional special regulation governing retailers in cheese was issued on September 19, 1918. On December 9, 1918, additional regulations governing commission merchants, brokers, and auctioneers dealing in cheese became effective. These Food Administration regulations were repealed December 31, 1918.

CONDENSED, EVAPORATED AND POWDERED MILK.

Between 1914 and 1918, production of processed milk was sharply increased, partly as a result of the stimulated domestic demand but mainly as a result of the expanded export market. Great Britain, particularly, and the other European belligerents as well, needed milk; and milk in canned or powdered form occupied less shipping space, was easier to handle, and was easier to keep. Since shipping space was a major consideration, powdered milk exports increased from twenty million pounds to 105 million pounds between 1914 and 1919.

During the war period, certain standards were used for various types of processed milk. Evaporated milk was considered as 3 to 4% butterfat milk with about 60% of the water content removed. It differed from condensed

milk in that the latter had about 40% of sugar added. Powdered milk consisted of skim milk with not more than 5 percent water content. Only a small amount of powdered whole milk (powdered cream) was produced because the butterfat in whole milk has a tendency to spoil unless kept under refrigeration. In addition, negligible quantities of powdered and condensed buttermilk, and powdered and condensed whey were produced.

The processed milk industry was outstanding in its concentration of industrial control during the war period. In 1914 three companies produced 56.5 percent of the total output of the country, and in 1918 four companies 54.2 percent. Moreover, the two companies ranking highest in production in 1918 - the Borden Company and the Nestle and Anglo-Swiss Condensed Milk Company - were, throughout much of this period, taking under control a large share of the output of smaller companies. Furthermore, these two largest interests had long had agreements seemingly restrictive of competition and apparently open to question under the antitrust acts.*

The total production of condensed, evaporated and powdered milk in the United States rose from 883,112,901 pounds in 1914 to 1,674,899,000 pounds in 1918, almost doubling.

Imports during this same period increased from 14,599,339 pounds in 1914 to 29,926,931 pounds in 1918, while exports rose from 16,209,082 pounds to 528,759,000 pounds. The following table shows the amounts of exports by areas of destination:

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* See Report of the Federal Trade Commission on Milk and Milk Products, 1914 - 1918, June 6, 1921.

GONDENSED, EVAPORATED AND POWDERED MILK
Amounts of Exports by Areas; 1914, 1917 and 1918
Thousands of Pounds

Exports to—	1914	1917	1918
Europe	8,4	164,185.6	384,588.1*
North America	9,564.9	47,940.3	53,287.2
South America	827.6	4,566.6	9,685.0
Asia	3,296.6	30,424.1	52,813.5
Oceania	1,972.4	8,743.1	11,655.2
Africa	539.2	3,281.7	16,730.2

* Greatest increases in exports of these processed milks were to the Allies and their possessions. Source: Foreign Commerce and Navigation Reports.

In the three pre-war years the European Allies received about 2¼ percent of the processed milk exported; in 1918 they were taking about 70 percent of the amount exported. Of the shipments to the neutrals during the war period, Holland was receiving 85 percent. "However a large portion of the amount - 15,134,084 pounds in all - consigned to neutral countries during the past fiscal year (1917) unquestionably reached Germany through indirect channels."*

The price of evaporated milk at New York did not vary more than 50 cents per case from January, 1913 to April, 1916. Beginning in April, 1916 and responding to a greatly increased export demand, the price rose steadily and rapidly. Seasonal variations were generally obscured through 1916 and 1917 by the general rise in prices. In 1918 a seasonal influence in price is apparent, related to and somewhat in advance of the seasonal variation in the production of raw milk. This accounted for the decline in price from January, 1918 until June, 1918 and the subsequent tendency to rise which was accentuated by a

* Creamery and Milk Plant Monthly, December, 1917, p. 35.

persistent increase in demand and costs. By December, 1918 the market had reached a point 97 percent above the pre-war level.

The following table shows the yearly average prices of fresh, evaporated and sweetened condensed milk for 1913, 1914 and 1915, and quarterly average prices for 1916, 1917 and 1918. Prices of powdered milk are not readily available but seem to have paralleled the trend of evaporated milk prices closely.

MILK
Wholesale Prices of Fresh and Canned Milk*
1913 - 1918

	Fresh, Delivered Chicago; freight 16½¢ per can Prepaid	Evaporated, in Case of 48 16-ounce Tins	Condensed, Sweetened, in case of 48 14-ounce Tins
	Per Quart	Per Case	Per Case
1913	$.0377	$3.5346	$4.7000
1914	.0380	3.4163	4.5625
1915	.0376	3.0764	4.6208
1916			
Quarters			
First	.0381	3.5000	4.9500
Second	.0334	3.5692	5.2038
Third	.0376	3.7071	5.2500
Fourth	.0469	4.1885	5.7077
1917			
Quarters			
First	.0428	4.6000	6.1308
Second	.0448	5.1538	6.8846
Third	.0498	5.5000	7.0000
Fourth	.0713	5.6154	7.2308
1918			
Quarters			
First	.0668	5.5038	7.5808
Second	.0483	4.8077	6.7308
Third	.0607	5.5833	7.1375
Fourth	.0802	6.7396	7.9750

* Source: War Industries Board Price Bulletin No. 21, Prices of Poultry and Dairy Products.

Considering that during the period 1913-1918 the price of canned milk rose approximately 75% above the 1913-14 average, while the price of fresh milk, which constitutes over half of the total milk factory costs, increased over 150%. Consequently the rate of profit dropped in 1918. The following table indicates the rates of return on gross investments received by canned milk companies during the war:

CANNED MILK

Rates of Return Earned on Gross Investment *
Canned-Milk Companies Making Evaporated and Condensed Milk, 1914-1918 **

GROUPS	1914		1915		1916		1917		1918	
	No. of Firms	Profit	No. of Firms	Profit	No. of Firms	Profit	No. of Firms	Profit	No. of Firms	Profit
		%		%		%		%		%
Companies making evaporated milk and not condensed	9	20.9	10	7.8	9	35.9	16	43.9	23	4.1
Companies making condensed milk and not evaporated.....	1	20.1	1	20.2	4	16.0	4	19.8	16	13.1
Companies making both condensed and evaporated.	4	9.9	5	12.9	6	14.0	6	10.7	12	11.0
TOTAL AND AVERAGE	14	12.7	16	11.9	19	19.6	26	20.0	51	8.8

* "Securities" included in investment.
** Source: Report of the Federal Trade Commission on Milk and Milk Products 1914-1918, June 6, 1921.

Although the decline in the rate of profit in 1918 seems extreme it was accepted both by the Food Administration and the Federal Trade Commission. These agencies agreed that the milk canners, including manufacturers of powdered milk, entered the winter of 1917-1918 with a large profit already earned. With large profits in the summer, it was the practice of the industry to enter the winter season with prices at or even below cost. The winter increase in raw milk costs with a lesser rate of increase in processed milk prices meant a reduction in the rate of profit. This practice was followed in the winter season 1917-1918. Meantime demand for canned and powdered milk was still increasing. The Food Administration anticipated even greater increases in demand in 1918 and encouraged manufacturers to operate at capacity. Many milk manufacturers complied with this request. A strong demand for raw milk, in part resulting from these condensaries, maintained rising raw milk prices during late 1917 and early 1918. The Food Administration's anticipated increase in the demand for canned and powdered milk did not materialize. By early 1918 storage capacity was loaded with products made from high cost milk. The price of raw milk collapsed in February, 1918 due to a decline in domestic consumer use of milk resulting from the high prices and a slack demand from condensaries resulting from a lack of additional storage space for their product. The price of condensed, evaporated and powdered milk was dragged down with the price of raw milk. Manufacturers reported to the Food Administration in June, 1918 that because of the unexpected drop in the price of raw milk and its products, they had earned a loss or at best a very small profit.

The lack of profit resulted partially from the trade practice of granting wholesalers an unlimited guarantee against a drop in the condensary price. Under this system, when a manufacturer lowered his list prices, he had to give

wholesalers a rebate, equal to the drop in price, on all stock of his particular brands on the wholesalers' inventory. In return for this protection the wholesalers added a very small margin to the manufacturers price of milk, thus assisting in keeping the price of processed milk at a level attractive to the consumer on the retail market.

Price rises late in 1918 enabled many condensaries to recoup their losses, and a profit was reported. In 1919, at the instance of several condensaries and with the support of the Federal Trade Commission and the Food Administration, the system of unlimited guarantee against a price decline was discontinued. In its place a guarantee of price for the last carload was substituted, thus protecting manufacturers' profits.

A further explanation of the low profit in 1918 was given in the Federal Trade Commission report on the Milk Industry. "In 1918 the restriction of exports and the control of prices exercised by the Food Administration and other Government departments in the purchase of canned milk for military purposes resulted in a smaller rate of profit."

Regulation

About the time the United States entered the war in April, 1917, the manufacturers of condensed, evaporated, and powdered milk organized a war service committee. This committee was to serve in routing Government orders through the industry and also in securing information and giving advice to the Government in regard to the industry. With the cooperation of the committee, the Army and Navy quickly developed a program of pro-rating purchase contracts among milk manufacturers in proportion to their production. Under this system the larger manufacturers received the greatest contracts but smaller manufacturers were given their due share.

Government-imposed restrictions affecting the condensed, evaporated and powdered milk industry began with the proclamation of August 27, 1917, which prohibited unlicensed exports. On September 28, 1917, in order to conserve shipping space, the Exports Administrative Board extended its conservation list to include all foods.

In September the Food Administration began to receive comments on trade conditions from milk manufacturers. A typical comment from the Food Administration's files in the National Archives follows: "There has been a marked tendency among the public to stock up on condensed milk, and we understand that some chain stores have instructed managers to sell no more than three cans to a customer and to increase their retail selling price...." To enable regulation of these trade conditions, manufactures and distributors of evaporated, condensed and powdered milk were included in the President's licensing proclamation of October 8, 1917. Approximately 250 licenses were issued for this industry. General regulations governing licensees became effective on November 1, 1917, and provided in part that, "The licensee shall not import, manufacture, store, distribute, sell, or otherwise handle any food commodities on an unjust, exorbitant, unreasonable, discriminatory, or unfair commission, profit, or storage charge.... shall not buy, contract for, sell, store, or otherwise handle or deal in any food commodity for the purpose of unreasonably increasing the price or restricting the supply... or of monopolizing or attempting to monopolize... any such commodities...."

Beyond this it was not deemed necessary by the Food Administration to control milk manufacturers. However, a Milk Section was created in the Canned Goods Division of the Food Administration to keep a constant check upon the industry.

An informative regulation sheet was issued by the Milk Section early in November. To keep check upon the industry a system of monthly reports by manufacturers was inaugurated. To clear the Army and Navy purchasing program mentioned above, the industry was notified that, "The manufacturer shall furnish his pro-rata part of such canned milk or milk compounds as may be required by the Army and Navy of the United States so long as the Army and Navy desire to use the present plan of allotment among the manufacturers" in proportion to the manufacturers portion of the total pack. * If the price offered by the Government was unsatisfactory for any reason the manufacturer was permitted to contest it. Upon such contest, the Quartermaster gave his reasons for the price. With this explanation the manufacturer was usually satisfied and withdrew his objection although he could carry his question to the Milk Section or to the Federal Courts. Likewise if the Quartermaster requisitioned all of a manufacturers production, the Milk Section recommended that the manufacturer ask for reasons which the Quartermaster must furnish.

The information sheet circulated by the Milk Section then listed the names of members of the Food Administration canned and powdered milk committee. Mr. J. F. Montgomery, chairman; Mr. W. T. Nardin, Mr. Walter Page, Mr. C. J. Parsons, Mr. L. R. Hardenbergh, Mr. H. C. Hooks and Mr. S. J. Scudder. Manufacturers were advised to address all inquiries as to regulations to this committee and were informed that any changes in regulations made by this committee had the force of Food Administration regulations. If manufacturers failed to comply with the committee's rules their license would be revoked on thirty days notice.

The Milk Section cooperated with the railroads in conserving car space. For example, the following units of trade were established:

* A copy of the requisition form is attached to this memorandum.

Evaporated and Powdered Milk	60,000 pounds
Condensed Milk.....	36,000 pounds

It was estimated that these units represented full car lots and thus an economy of transportation space would be achieved.

The Milk Section was interested in restricting the possibility of speculation even on the retail market. Consequently late in 1917 it requested manufacturers to have their salesmen or agents ascertain retail prices in their respective territories. As retail price reports came in they were carefully tabulated and analyzed. Subsequent to this one request a check on retail prices was kept through newspaper advertisements. Since retail margins on milk were small, no action was taken to restrict these prices.

To help the Food Administration effectuate its recommendations, it was given control of all purchases by this Government or by foreign agencies. Cooperation from the War Trade Board was necessary to correlate all export demand with domestic production and demand.

By December, 1917, the War Trade Board, at the request of the Food Administration, required that all applications for export licenses for condensed and other forms of preserved milk be accompanied by certification that the export was sold direct, for the specified purpose, and that the purchase price of the raw milk used in its manufacture would not exceed the price paid by other buyers in the territory in which the manufacturing plant was located. This measure was taken to discourage the operations of speculators who were purchasing from retail stores for later export the brands of canned milk which the manufacturer had set apart for distribution to the American public. In addition, the Food Administration thought that if exportation of canned milk could be controlled by the manufacturer, the true

export demand and the real demand for home consumption could be more accurately determined. The effect of the regulation of exports is shown on Chart I.

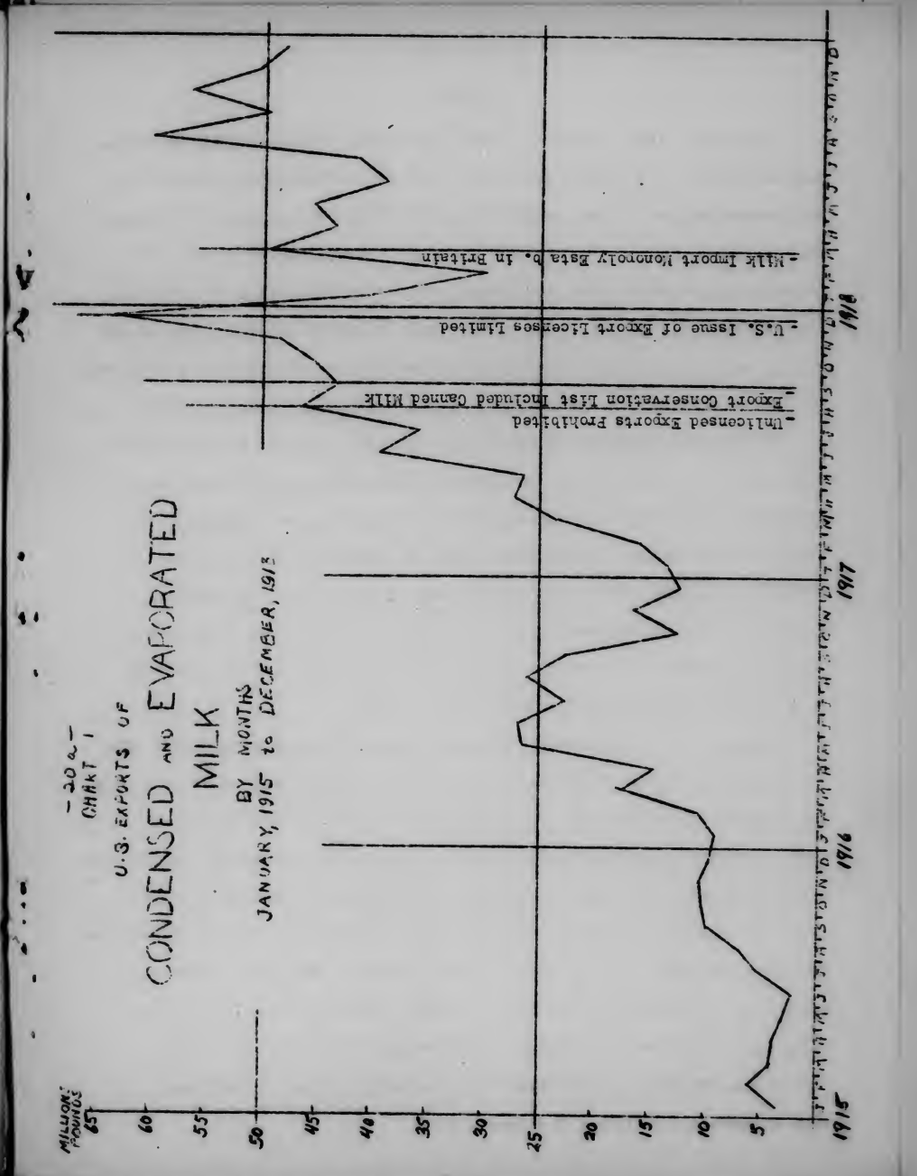
Special regulations were issued by the Food Administration on January 28, 1918, governing licensees engaged in the business of manufacturing condensed, evaporated, or powdered milk. It changed the "reasonable advance" rule to read: "The licensee shall sell condensed, evaporated and powdered milk for not more than a reasonable advance over the average cost of the season's pack without regard to the market or replacement value at the time of such sale." Then to enable wholesalers to keep within the sixty days supply rule, the size of the trade unit was changed to:

Powdered Milk . . . . . 40,000 pounds

Evaporated and Condensed Milk . . . 45,000 pounds

On March 31, 1918, the War Trade Board announced that the British Government had ordered the prohibition of all imports of condensed milk on and after April 1, 1918, except those of the Government itself. The Board, therefore, issued no further export licenses or renewals for condensed milk consigned to Great Britain unless the application bore the approval of the Allied Provisions Export Commission. Since the British Government made extensive purchases for civilian distribution this does not seem to have materially affected export demand. It did lessen the number of competing buyers on the market, however, and may, therefore, have affected the price of canned and powdered milk.

To control the use of shipping space so that it would best serve the country's wartime needs, imports of dairy products were restricted soon after April 22, 1918. Since the volume of imports increased in 1918 over 1917 there is no reason to assume this restriction of imports was particularly effective in its application to canned and powdered milk.



On June 15, 1918, a special license regulation became effective requiring that wholesalers and jobbers comply with the rule of "reasonable advance over the average purchase price...without regard to market or replacement value...." This regulation did not immediately affect the distribution of canned and powdered milk because of the low margin taken by the wholesaler on canned and powdered milk as a result of the manufacturers guarantee against a drop in his price. As applied to milk products it was intended to prevent undue speculation which conceivably might develop rather than to correct any existing evils.

The Food Administration frequently had to take a hand in the milk manufacturers demands upon related industries. For example, shortly after Food Administration control had been established an emergency arose due to the refusal of the railroads to haul tin cans. It was necessary to have the Priorities Committee give precedence to cans in order to prevent enormous wastage of milk at condenseries due to the lack of cans. A similar problem arose in connection with sugar. On June 28, 1918 the sugar supply allotted to condensed milk manufacturers had to be curtailed.

Thus, in spite of increasing foreign demand, production of condensed milk was reduced. As partial compensation, evaporated milk production was expanded. The extensive drought in the summer of 1918 reduced the production of raw milk and correspondingly reduced the supply of milk for condensing, consequently the full effect of the sugar restriction is not evident. In November, 1918 it was possible to ease the restriction on the use of sugar so that condenseries could get the same amount of sugar they used in 1917. Expanded production, which would have required more sugar, was not permitted in the last half of 1918. After the war, the industry rapidly adjusted itself to peace time conditions. Regulations effecting the evaporated, powdered and condensed milk industries were lifted in January, 1919.

United States Food Administration

Division of Coordination of Purchase

To Manufacturers of Milk

Sir:

You have been allotted on United States Army Requirements the Evaporated Milk stated below and are instructed to hold same subject to notice and instructions from the Office of the Acting Quartermaster General of the Army, which will be issued through the Depot Quartermaster to whom all correspondence on this subject should be addressed.

Delivery Basis_____

Specification Number_____

How Packed_____

Quantity_____

Price_____

Remarks_____

If within 15 days from the date of this advice you have not received complete shipping instructions apply for same by telegraph to the office of the Acting Quartermaster General of the Army, War Department, Washington, D. C.

SOURCES

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Biennial Census of Manufactures, 1921.

War Industries Board Bulletin, No. 21, Prices of Poultry and Dairy Products, by William A. Barber, 1919.

United States Department of Agriculture, Agricultural Statistics, 1939.

Report of the Federal Trade Commission on Milk and Milk Products 1914-1918, June 6, 1921.

Selected Files of the Milk Section of the Canned Foods Division of the Food Administration in the National Archives.

July , 1941

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